Winter 2018

Financial focus

2017: A turnaround year for Canada

When the final numbers are tallied for 2017, Canada's economy is expected to lead the G-7 group of industrialized economies[1] and come in second only to Spain among all developed nations.

Considering that the Canadian economy was recently a laggard, the speed and magnitude of the economic rebound are remarkable.

GROWTH ACROSS SECTORS

What's most impressive about the Canadian economy is that growth is coming from a diversified group of sectors.[2]

A rebound in oil and gas output is providing a boost, but so are upticks in manufacturing, financial, and wholesale and retail trade. According to one estimate, technology is one of the fastest growing sectors of the Canadian economy.[3]

ECONOMIC VITALITY

Despite the lack of clarity about the direction of U.S. economic policies, the Bank of Canada's Business Outlook Survey[2] finds that business sentiment is strong, particularly when it comes to investment and hiring decisions. These are both key indicators for future growth.

Further supporting an optimistic outlook is the unemployment rate, which dropped to its lowest level in almost a decade in late summer 2017,[4] and a strengthening Canadian dollar.[5]

NEXT STEP: In light of Canada's bright prospects, this may be a good time for us to reexamine your Canadian exposure. We can review your current holdings and ensure your portfolio is positioned to take full advantage of the prospects for growth in our domestic markets.

1. International Monetary Fund, World Economic Outlook, July 2017.
2. Bank of Canada, Business Outlook Survey, Summer 2017.
3. Brookfield Institute, The State of Canada's Tech Sector, 2016.
4. TradingEconomics.com.
5. Forex Market News and Analysis, Daily FX, July 21, 2017.

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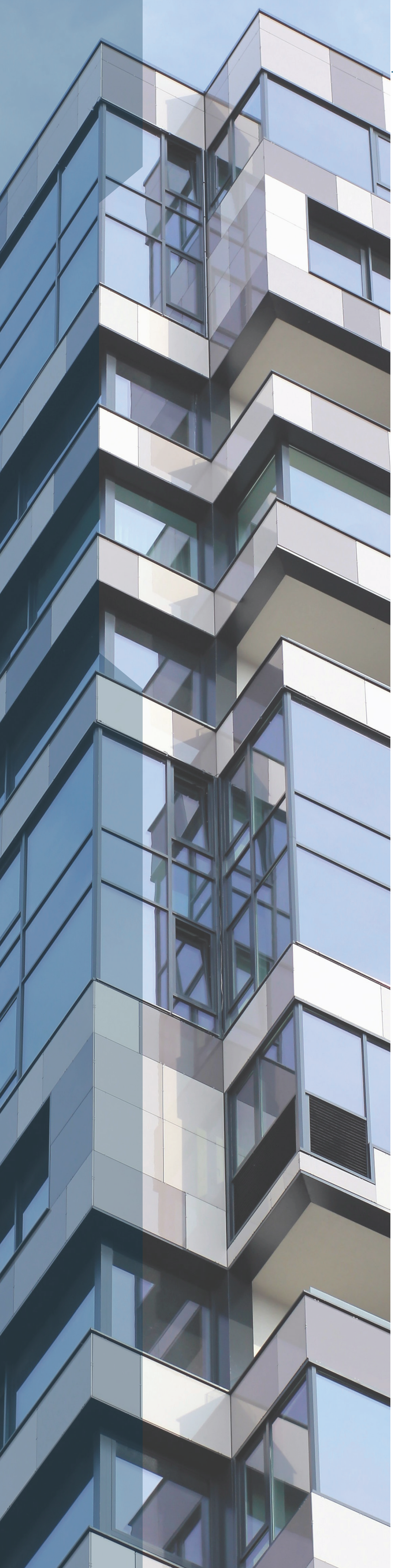

Corporate profits expected to lift stock markets

The global economy is picking up steam, buoyed by both advanced and emerging economies. National Bank Financial Economic & Strategy Group expects the global economy to grow by about 3.5% in 2017 and 2018. Both global trade and industrial output are surging, which is positive news for the economy and, by extension, for earnings growth and the markets.

As a result, National Bank Financial Economic & Strategy Group favours stocks over bonds and Canadian equities over U.S. equities, given the valuation gap between the two markets and the potential for the Canadian dollar to rise against the U.S. greenback.

A number of factors are coming together to lift the global economy and support stock markets.

STRENGTH IN DEVELOPED ECONOMIES

After a subpar performance in 2016, industrial output, trade, and growth are surging. Japan posted its sixth consecutive quarter of growth in the second quarter of 2016, and European growth is also accelerating.

In the U.S., industrial output is ramping up as businesses replenish inventories and boost investment. Indeed, on a global basis, inventories are at their lowest level in years, which is positive for industrial production and trade going forward.

Consumer spending — the main driver of U.S. growth — is also in excellent shape.

While the difficult 2017 hurricane season in the U.S. may detract from performance, rebuilding efforts should contribute to a rebound in late 2017 and 2018.

A BUOYANT CHINA

Part of the uptick in economic activity in emerging markets can be attributed to China, with growth accelerating to 7% on an annualized basis in mid-2017. Solid retail sales point to continued strength for consumption spending, while real estate investment is also showing resilience. Imports, particularly of commodities, are growing at their fastest pace since 2012. This is positive news for commodity producers and for global trade.

However, significant risks remain for China, including massive debt levels and

potentially less favourable U.S. trade policies.

GLOBAL PROFIT EXPANSION

Global markets, as measured by the MSCI AC Index, hit a new high in August 2017, with most regions contributing to the advance. The real positive news behind this streak is that earnings growth — spurred by the most synchronized global growth in more than 10 years — is pushing the markets higher. Indeed, upward earnings for global equities are the most broadly based they've been in three years.

Although risks remain to this outlook — particularly the rise of trade protectionism, elevated debt levels, geo-political uncertainties, and a possible U.S. slowdown — National Bank Financial Economic & Strategy Group believes that the positive cyclical backdrop continues to trump these concerns.

NEXT STEP: We'd be happy to review your global equity exposure in light of current market opportunities. Please give us a call today to set up an appointment.

Canadians not as financially literate as they think

A recent survey[1] found that more than three quarters of Canadians (78%) believe they are financially literate: 64% rate their knowledge as "good," while 14% rate it as "excellent."

However, test results conducted as part of the survey tell a different story — six in 10 failed a test measuring basic financial literacy. In terms of demographic groups, 52% of Boomers passed, while only 45% of Gen Xers and 31% of Millennials got a passing grade.

HOW WOULD YOU FARE?

Test your own financial knowledge with these five questions from the test. Answers appear below.

TRUE OR FALSE?	HOW RESPONDENTS FARED
1. A mortgage term refers to the length of time you need to pay off your mortgage.	51% answered incorrectly.
2. You can have multiple TFSA accounts with different banks at the same time.	20% got it wrong; 40% didn't know.
3. Applying for a credit card can negatively affect your credit score.	36% got it wrong; 17% didn't know.
4. A car that is more expensive always costs more to insure than a cheaper car.	50% got it wrong.
5. All banks charge you money to have a chequing account.	50% answered incorrectly or didn't know.

Answers: 1: False. 2: True. 3: True. 4: False. 5: False.

1. May 2017 survey conducted by Ipsos on behalf of LowestRates.ca.

The RRSP overhang: More than $1 trillion[1]

The numbers are staggering. More than 24 million Canadians have unused Registered Retirement Savings Plan (RRSP) contribution room.[1] That works out to more than $40,000 for each tax filer. With a median annual RRSP contribution of just $3,000, it would seem Canadians are missing out on enormous tax-saving opportunities.

It's difficult to understand why. RRSPs provide a number of benefits, including tax-deductible contributions, long-term tax-deferred growth, and diversification opportunities. And unused contribution room represents the potential loss of many years of tax-free compound growth. Adding just $2,000 to your RRSP in January 2018, for example, earning 8% annually, would bump up your savings by almost $11,000 by 2040.

One of the easiest and most convenient ways to ensure you are always taking full advantage of your RRSP is to start — or increase — regular investment contributions. Once formed, these good habits are hard to break. With regular contributions, you're more likely to get closer to your maximum allowed contribution, and your money will begin to grow tax-deferred as soon as it's in your plan.

NEXT STEP: Automatic plans are easy to set up, and you can choose a withdrawal date and frequency (weekly, bi-weekly, monthly, etc.) that dovetails with your cash flow. If you're not already taking advantage of preauthorized contributions, we can help you get started.

1. Statistics Canada, CANSIM Table 111-0040, Registered Retirement Savings Plan (RRSP) room; accessed September 2017.

Investing

Portfolio tune-up

Getting in shape is arguably one of the most common New Year's resolutions. But it's not just people who can benefit from a New Year's tune-up. Here are three exercises that can help ensure your portfolio stays in top shape.

BALANCE

The key to good physical fitness is balance. The same is true for your fiscal fitness. Achieving balance in your portfolio starts with reviewing your goals and the value of your individual holdings, which may have changed over the course of the year. For example, if equities have outperformed, they may now represent a larger proportion of your portfolio, which could mean more potential volatility than you are comfortable with.

REDUCE

Rest assured, this kind of reducing doesn't involve any hard-to-keep resolutions. Rather, part of the balancing process may involve pruning back investments that no longer fit your investor profile or crystallizing gains from any that may have outperformed.

STRENGTHEN

An ideal way to strengthen your portfolio is by beefing up (or setting up) pre-authorized contributions. We can then look at how best to deploy this year's contributions and any excess cash balances. For example, you might choose to use new cash infusions to top up existing holdings. On the other hand, it could also be directed to new sectors that complement your existing investments.

NEXT STEP: Call us soon to set up your New Year's portfolio tune-up.

Financial Planning

Weighing your options: RRSP or mortgage?

The most important financial question for many Canadians is whether to add to their Registered Retirement Savings Plan (RRSP) or pay down their mortgage. The decision is rarely straightforward. So which option is right for you?

In most cases (but not all), the RRSP is likely to take priority.

DECIDING FACTORS

Here are some factors you should look at to help you decide.

- **Providing for your future.** If you don't contribute to your RRSP, you won't have it to provide income at retirement. And you won't profit from any of its growth potential or tax-saving benefits along the way. Not making an extra mortgage payment, on the other hand, doesn't mean losing your home. However, if you're approaching retirement, you might not want a high monthly mortgage payment after you retire. If your RRSP is in good shape at this stage, paying down your mortgage could be a priority.
- **A tax break.** Contributing to an RRSP can give you one of the best tax breaks available. If you invest $5,000 in your RRSP, and your marginal tax rate is 41%, you'll receive a tax benefit of $2,050. Put another way, a $5,000 contribution costs you only $2,950.
- **Long-term growth.** All the money earned inside your RRSP is tax-deferred. A one-time investment of $5,000, earning 8% a year, would grow to $34,242 in 25 years.

  However, if the interest rate on your mortgage is higher than the expected growth rate in your RRSP, paying down some of the principal might be your choice.
- **Liquidity.** If you ever face a desperate financial situation, you can withdraw money from your RRSP. Your investment in your home is not so liquid.

GO FOR BOTH

Fortunately, it is possible to both contribute to your RRSP and pay down your mortgage. All you have to do is contribute to your RRSP and then use the tax savings to pay down your mortgage.

Another way, in a low interest-rate climate, is to use your cash to pay down your mortgage and borrow to contribute to your RRSP. You could even take advantage of unused deduction room carried forward from previous years.

Take advantage of the resources available to you. Professional advice can help ensure that both your RRSP and your mortgage are properly weighted within your overall financial plan.

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